



NOTICE TO STATE WATER PROJECT CONTRACTORS

NUMBER: 00-02

DATE: 1/24/00

SUBJECT: Principles for an Amendment to the
Long-Term Water Supply Contracts

FROM

Signed: Thomas Hannigan

Director, Department of Water Resources

This Notice to State Water Project Contractors transmits the principles for a water supply contract amendment which were developed on December 9, 1999, resulting from negotiations between representatives of the Department of Water Resources and the State Water Project contractors. This also is a follow up to the Department's November 18, 1999 Notice to contractors.

This month we expect to begin drafting contract language for a water contract amendment, using these principles. The amendment will cover SWP financial management issues, including changes in the financing and repayment of the following:

- Operations and Maintenance Charges
- Water Purchases
- Information Systems, and
- Transfers Between Water Contractors

This new contract amendment will be integrated into the Phase 1 amendment that was negotiated last year and processed as a single contract amendment.

The process for implementing the final amendment and conducting environmental evaluation will be addressed during the upcoming weeks. The amendments are anticipated to be in place about mid-2000.

Attachment

December 9, 1999

STATEMENT OF PRINCIPLES

by the

STATE WATER PROJECT CONTRACTORS

and the

STATE OF CALIFORNIA, DEPARTMENT OF WATER RESOURCES

To increase the financial flexibility of the Department of Water Resources (DWR) and provide improved certainty for State Water Project (SWP) contractors, DWR and representative SWP contractors agree to the following principles:

1. **Pay-As-You-Go Conservation Operations and Maintenance Charges.** DWR shall bill contractors for Project Conservation operations and maintenance (O&M) costs (including extraordinary O&M) and Project Conservation replacement costs on a pay-as-you-go basis subject to the provisions of the Department's capitalization policy, as amended after consultation with SWP contractors. Such Conservation O&M costs shall include DWR turnback pool purchases to improve SWP carryover storage, but shall not include water purchases except as described in Opt-out (Principle 4) below. [DWR's proposal to accelerate repayment of past unpaid Conservation O&M costs over a shorter period is set aside for now, to be discussed later by DWR and SWP contractors]
2. **Water Rights Settlement Purchases.** Costs of any water rights settlement water purchases for project supply shall be charged to all contractors under Article 22(i) under DWR's existing authority, and not under pay-as-you-go in Principle 1.
3. **Project Water Purchases.** DWR maintains its existing ability to make water purchases under Article 22 (i). Such costs shall not be repaid on a pay-as-you go basis.
4. **Opt-out Water Purchases.** DWR will purchase water on behalf of the SWP contractors through an opt-out approach. Costs of such purchases shall be charged to the Conservation

O&M charge on a pay-as-you-go basis as described in Principle 1. The opt-out approach will include an option for short-term (two to five year) financing similar to Principle 5.

5. **Short-Term Financing.** DWR may obtain short-term (two to five year) financing for unanticipated and extraordinary Conservation and Transportation O&M costs, subject to consultation with SWP contractors, provided that such financing makes good business sense. Individual SWP contractors may opt-out of any such short-term financing and pay their allocated Conservation and Transportation O&M costs on a current basis. Contractors that choose to take advantage of DWR short-term financing will be responsible for all related financing and administrative costs.
6. **Water System Revenue Bond Financing Expansion.** Phase 2 of DWR's Business 2000 Information System and other information system improvements will be eligible for long-term financing through Water System Revenue Bonds. Actual financing for the information systems improvements shall be subject to consultation between DWR and the SWP contractors.
7. **Transitional Water.** DWR shall implement a transitional water program, developed in coordination with the SWP contractors for contractors purchasing the 130,000 acre-feet of agricultural entitlement made available under the Monterey Amendment. The transitional water program would allow all or a portion of the purchased entitlement to continue being delivered to the selling contractor under a fixed schedule for five years, with the selling contractor paying the Delta Water Charge for this entitlement during the initial five-year period. The buyer and seller may revise and extend this program under a fixed schedule for a second five-year period. A buying contractor in this program will not be eligible for entitlement reduction under Article 7.
8. **Integrated package.** Contractors will participate in all or none of the provisions of these Principles, as well as the DWR-SWP Contractors contract revisions negotiated in November 1998. A contractor who chooses not to participate shall receive none of the benefits provided in these Principles.
9. **No precedent.** If the parties do not enter into the amendments, the parties agree not to utilize this document in any court proceedings relating to matters addressed in this agreement.

This document contains an agreed Statement of Principles that is the foundation for an agreement among the SWP Contractors and DWR. The undersigned negotiators pledge their good faith efforts to work diligently toward a final written agreement. The signatories further pledge to endeavor to expeditiously obtain approval of these principles from their respective Agencies by March 1, 2000.

Nothing in this Statement of Principles is intended to be, nor shall it be interpreted as, a waiver by any party of its rights in law or equity.

Executed this 9th day of December, 1999:

Department of Water Resources

Signed: Stephen Kashiwada

Kern County Water Agency

Signed: Edward Tiedemann

Tulare Lake Basin Water Storage District

Signed: Brent Graham

Solano County Water Agency

Signed: David Okita

Antelope Valley-East Kern Water Agency

Signed: Wallace Spinarski

Castaic Lake Water Agency

Signed: Robert Sagehorn

Metropolitan Water District of Southern California

Signed: Duane Georgeson

Central Coast Water Authority

Signed: David Matsuda